



State of Idaho
Legislative Services Office
Management Report

A communication to the Joint Finance-Appropriations Committee

IDAHO INDUSTRIAL COMMISSION
FY 2006, 2007, and 2008

Report IC30008
Date Issued: December 11, 2009

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

**Idaho Legislative Services Office
Legislative Audits Division**

IDAHO INDUSTRIAL COMMISSION

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho Industrial Commission covering the fiscal years ended June 30, 2006, 2007, and 2008. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion, but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We did not identify any significant conditions or weaknesses in the general administrative and accounting controls of the office.

FINDINGS AND RECOMMENDATIONS

There is one finding and recommendation in this report.

1. The cash balance in the Industrial Administration Fund exceeds the current annual expenditures by nearly \$7 million.

The complete finding is detailed on pages 1 and 2. A copy of this report is available at <http://www.legislature.idaho.gov/audit> or by calling 208-334-4832.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior report for fiscal years 2002 through 2005 included one finding and recommendation, which was closed at the 90-day follow-up.

AGENCY RESPONSE

The Commission has reviewed the report and is in general agreement with its contents.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

IDAHO INDUSTRIAL COMMISSION – FISCAL YEAR 2008

Fund No.	Title	Beginning Cash Balance	Plus Receipts	Less Disbursements	Transfers Out	Ending Cash Balance
0300	Administration	\$11,975,645	\$13,404,058	\$9,429,234	\$0	\$15,950,469
0312	Peace & Detention Officer Disability	0	109,160	0	0	109,160
0313	Crime Victims	2,365,065	2,458,788	3,093,057	0	1,730,796
0348	Federal	259,527	622,956	849,272	0	33,211
0349	Miscellaneous	47,591	32,828	30,159	0	50,260
0519	Special Indemnity	197,603	2,371,987	0	2,569,590	0
	Total	\$14,845,431	\$18,999,777	\$13,401,722	\$2,569,590	\$17,873,896

This report is intended solely for the information and use of the State of Idaho and the Idaho Industrial Commission and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Mindy Montgomery, and her staff.

ASSIGNED STAFF

Chris Farnsworth, CPA, Managing Auditor

Brian Butkus, In-Charge Auditor

Eric Bjork, Staff Auditor

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FINDING AND RECOMMENDATION

FINDING 1

The cash balance in the Industrial Administration Fund exceeds the current annual expenditures by nearly \$7 million.

The cash balance in the Industrial Administration Fund has steadily increased over the last four years, growing from \$6.2 million at June 30, 2005 to \$17.2 million at June 30, 2009. This increase is the result of premium tax revenue and investment earnings that exceed disbursements as shown in the following table:

Industrial Administration Fund 0300				
Fiscal Year	Beginning Cash Balance	Plus Receipts	Less Disbursements	Ending Balance
2006	\$6,217,342	\$11,708,580	\$9,227,424	\$8,698,498
2007	8,698,498	12,618,773	9,341,626	11,975,645
2008	11,975,645	13,404,058	9,429,234	15,950,469
2009	15,950,470	11,864,636	10,567,156	17,247,950

The cash balance at June 30, 2009, exceeds the annual expenditures by nearly \$7 million, indicating a significant surplus cash balance and the need for the Commission to reevaluate program activities and revenues to ensure service levels are appropriate and that the premium tax rate is not excessive. Any changes to program activities and revenues will require executive and legislative approval, as these requirements are established in Idaho Code.

RECOMMENDATION 1

We recommend that the Commission initiate a dialog with executive and legislative leadership to reduce the surplus cash balance in the Industrial Administration Fund through the adjustment of program services, premium tax rates, or other measures.

AGENCY'S CORRECTIVE ACTION PLAN

In the past, the Commission has considered a number of ways to "even out" excess and shortfalls in its fund balance. In fiscal year 2003, with low cash reserves, we explored implementing an automatic adjustable tax rate rather than the current fixed 2.5% on workers' compensation premiums. This proposal found little support among Idaho employers that pay workers' compensation premiums. The Commission responded by being extremely cautious in our spending, which, along with a strong economy in 2005 to 2007, helped build our cash reserves. Following our fiscal year 2005 legislative audit, the Commission proposed granting a one-time premium holiday if our cash balance was excessive. The Attorney General opined the Industrial Commission did not have statutory authority to provide for this premium reduction.

Historically, the Industrial Administration Fund balance has increased and decreased in accord with current economic conditions; a stronger economy means

increased employment and a corresponding increase in premium tax revenues. In fiscal year 2010, the fund is decreasing due to the current recession. The graph on page 4 of this report illustrates the Commission's past and projected future financial condition. While the cash balance has increased gradually over the past few years, our current receipts are lower than expenditures, and future projections show that the fund balance will experience a sharp decline. Premium tax projections for fiscal year 2011 are anticipated to be 26% below those in fiscal year 2009.

SOLUTION:

The Industrial Commission intends to work with the Executive and Legislative leadership to explore the possibility of amending Idaho Code, Section 72-523 to allow the Commission authority to grant employers premium tax discounts when the Industrial Administration Fund is in excess. Currently, the State Insurance Fund grants premium discounts, known as deviations, to employers. The Industrial Commission would like to duplicate this successful practice.

AGENCY RESPONSE



IDAHO INDUSTRIAL COMMISSION

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COMMISSIONERS
R.D. Maynard, Chairman
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Thomas P. Baskin

C.L. "BUTCH" OTTER, GOVERNOR

Mindy Montgomery, Director

MEMORANDUM

TO: Chris Farnsworth, CPA, Managing Auditor
Legislative Services Office

FROM:  Mindy Montgomery, Director
Industrial Commission

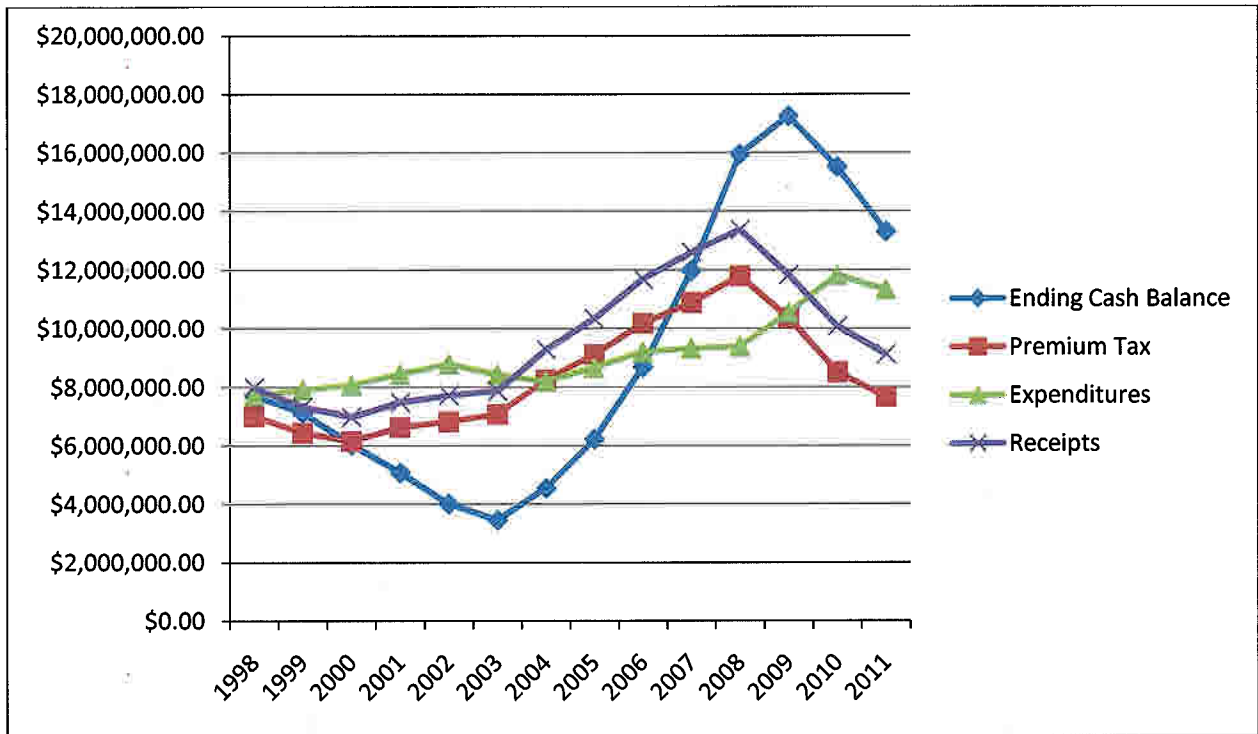
DATE: November 6, 2009

SUBJECT: Agency Response to FY2006, 2007, and 2008 Legislative Audit

In the Industrial Commission's FY 2006-2008 Legislative Audit, the Legislative Services Office observed that the Commission's cash balance in the Industrial Administration Fund has exceeded annual expenditures for the past several years.

In the past, the Commission has considered a number of ways to "even out" excess and shortfalls in our fund balance. In FY 2003 with low cash reserves, we explored implementing an automatic adjustable tax rate rather than the current fixed 2.5% on workers' compensation premiums. This proposal found little support among Idaho employers that pay workers' compensation premiums. The Commission responded by being extremely cautious in our spending, which, along with a strong economy in 2005 to 2007, helped build our cash reserves. Following our FY 2005 Legislative Audit, the Commission proposed granting a one-time premium holiday if our cash balance was excessive. The Attorney General opined the Industrial Commission did not have statutory authority to provide for this premium reduction.

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If you have any questions, please contact me at mmontgomery@iic.idaho.gov or 334-6059.

APPENDIX

HISTORY

For more than 80 years, the Industrial Commission has worked to ensure that eligible workers injured on the job receive compensation to which they are entitled under the Workers' Compensation Law. The following is a chronological history of the Commission.

1917 – The Industrial Accident Board was created as a statutory body with quasi-judicial powers to investigate facts and arrive at conclusions.

1936 – House Joint Resolution #1 was ratified, giving the Board constitutional recognition as a special court for adjudication of questions pertaining to the Workmen's Compensation Law.

1970 – The Governor designated the Board to reach an agreement with the U.S. Secretary of Labor relative to jurisdiction over local and State safety matters.

1972 – Recodification of the Workmen's Compensation Law was enacted, replacing the Industrial Accident Board with the Industrial Commission.

1974 – As authorized by enactment of Idaho Code, Section 72-501A, the Rehabilitation Division was established for a trial period of two years.

1977 – The fiscal year 1978 appropriation to the Commission did not include funding for the Rehabilitation Division.

1978 – The laws relating to the Rehabilitation Division were repealed and reenacted, and the program was reinstated and funded as of March 22, 1978.

1978 – Management of the Industrial Special Indemnity Account or "Second Injury Fund" was transferred to the Department of Administration. The Industrial Commission still receipts all money to the account.

1986 – The Crime Victims' Compensation Fund was established as authorized by Idaho Code, Section 72-1009.

1989 – The law was amended, changing its title from Workmen's Compensation Law to Workers' Compensation Law.

STATUTORY AUTHORITY

Statutory authority for the Commission is found in Idaho Code, Title 72, and the recognition of it as a special court is found in Article V, Section 9, of the Idaho Constitution.

PURPOSE

The Commission administers the Idaho Workers' Compensation Law. The Commission is composed of one employer representative, one worker representative, and one attorney. Statutes require that the Industrial Commission:

1. Settle disputed workers' compensation matters. (Commissioners have the same judicial level as Idaho's district judges.)
2. Act as an appeals court for Department of Labor claims.
3. Maintain files on all workers' compensation claims.
4. Secure the rights of Idaho workers by ensuring that all employers subject to the law are insured.
5. Maintain workers' compensation coverage histories on all covered employers.
6. Administer Idaho's Crime Victims' Compensation Law.
7. Complete, bill, and collect Industrial Special Indemnity Fund assessments.

ORGANIZATION

The three-member Industrial Commission is appointed by (but not subject to removal by) the Governor to staggered six-year terms, subject to approval by the Senate. Each commissioner must be at least 30 years old and have been a resident of the State for at least three consecutive years preceding the appointment. The Commission cannot be represented by more than one person who could be classified as a worker representative. One Commission appointee must be a licensed attorney. No more than two members of the Commission may belong to the same political party.

The Commission is assisted in administering its day-to-day activities by a director who serves at a level between the Commissioners and staff to coordinate the activities of the four functional divisions of the agency: Compensation, Adjudication, Rehabilitation, and Crime Victims.

The Compensation Division is made up of several bureaus that handle day-to-day activities. These bureaus are:

ADMINISTRATION – This bureau includes the director, public information specialist, and the Commissioners' secretary.

MANAGEMENT SERVICES – This bureau consists of three sections: fiscal, information technology, and human resources.

BENEFITS ADMINISTRATION – This bureau maintains records of each on-the-job accident. It ensures that benefits are paid properly, in a timely manner, and in accordance with the Workers' Compensation Law.

EMPLOYER COMPLIANCE – This bureau maintains files on employers to ensure they have coverage as required by the Idaho Workers' Compensation Law. Employers not carrying coverage may be assessed penalties.

The Adjudication Division comprises commissioners, attorneys, mediators, and support staff, who resolve workers' compensation disputes and serve as the appeal authority for unemployment insurance appeals.

Rehabilitation Division personnel have direct contact with injured workers, employers, doctors, and others to minimize the period of disability. To accomplish this, field consultants must stay knowledgeable about current job markets and the availability of medical and social services offered in their communities.

The Crime Victims' Compensation Program provides financial assistance to crime victims who are injured as the result of criminally injurious conduct. The program also pays for sexual assault forensic exams.

The Commission's organizational chart is included at the end of this report.

FUND DESCRIPTIONS

The Commission is funded primarily by workers' compensation insurance premium tax assessments, fines, interest, restitution payments, and two federal grants. Revenues are used to support operations of the Commission's workers' compensation, rehabilitation, and adjudication programs, as well as to make payments to crime victims and the Second Injury Fund administered by the Department of Administration.

INDUSTRIAL ADMINISTRATION FUND 0300

This fund receives revenue from workers' compensation insurance premium tax assessments, fines, and interest payments. These funds are used to support workers' compensation, rehabilitation, and adjudication programs. This fund is also used to support safety inspection programs in places of public employment, that ensure safe working conditions, and to promote logging safety. (Safety inspection programs are administered by the Division of Building Safety through an interagency agreement.)

POLICE AND DETENTION OFFICER DISABILITY FUND 0312

Created during the 2007 legislative session, this fund receives funding from all persons convicted of a misdemeanor or felony, except upon order of the court due to indigence. Money is transferred from the counties to the State Treasurer's Office for deposit into the Police and Detention Officer Disability Fund. In addition, this fund receives money from appropriations, gifts, grants, and donations. These funds are used to provide a full salary to employees injured in certain dangerous situations by providing a supplemental compensation to the ordinary workers' compensation benefits.

CRIME VICTIMS' COMPENSATION FUND 0313

This fund receives funding from all persons convicted of a misdemeanor or felony, except upon order of the court due to indigence. Money is transferred from the counties to the State Treasurer's Office for deposit into the Crime Victims' Compensation Fund. In addition, this fund receives money from court restitution orders, subrogation payments, a federal grant funded by federal penalties against offenders, and donations. These funds are used to administer the Crime Victims' Compensation Program and to compensate victims of crime, or their dependents, for medical care, mental health counseling, lost wages, and burial expenses incurred as a direct result of being victimized by a crime, to a maximum of \$25,000 per victim, per crime.

FEDERAL FUND 0348

This fund receives money from the U.S. Department of Justice for the Crime Victims' Compensation Program, as well as a small amount from the Census Bureau for Fatal Occupational Injuries of the U.S. Department of Labor, Bureau of Labor Statistics. These funds are used to compensate crime victims or their dependents for medical care, mental health counseling, lost wages, and burial expenses. Eligible expenses are incurred as a direct result of being victimized by a crime to a maximum of \$25,000 per victim, per crime. The funds from the Bureau of Labor Statistics are used to track statistics on fatal accidents incurred while at work.

MISCELLANEOUS FUND 0349

This fund receives revenue from Commission-sponsored seminars. These funds are used to pay the costs associated with hosting an annual seminar and a workers' compensation certification program.

SPECIAL INDEMNITY FUND 0519

This fund receives revenue from annual assessments, equal to two times the amount of expenses incurred by the Idaho Second Injury Fund during the previous fiscal year, less the existing cash balance of the fund at fiscal year-end. The total assessment is prorated among the State Insurance Fund, self-insured companies, and sureties, based on each entity's proportionate share of total indemnity benefits that were paid on open workers' compensation claims. These funds are used exclusively to pay the administrative costs of operating the fund and making payments to claimants who have suffered an industrial injury subsequent to either a pre-existing physical impairment or condition, or a prior industrial injury which, when combined, render the claimant totally and permanently disabled. This fund, and benefits from this fund, is administered by the Department of Administration.

IDAHO INDUSTRIAL COMMISSION

June 1, 2009

